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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 004153

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SUBJECT: TAIWAN'S MEDICAL INDUSTRY - CATCHING CHINA FEVER?

Classified By: AIT Economic Section Chief Daniel K. Moore, Reason 1.4 d

¶1. (C) Summary: Taiwan investors and medical providers are increasingly involved in healthcare services in the PRC. Taiwan firms have opened or plan to open eight hospitals in China. According to one AIT source, as many as 100 Taiwan-invested clinics have applied for PRC permission to operate in the Mainland. Academic medical exchanges also continue to flourish. We expect Taiwan investment and other cross-Straits economic activity to continue growing in healthcare and spread to other service industries. End summary.

¶2. (U) Every day Taiwan's economy grows more closely integrated with Mainland China's. Cross-Straits economic relations began primarily with Taiwan firms investing in manufacturing operations in the PRC in the late 1980s. The earliest investment was concentrated in labor-intensive industries like footwear, toy, and apparel manufacturing. Later Taiwan's highly successful information technology (IT) manufacturers moved operations to the Mainland. Rising cross-Straits trade quickly followed investment as Taiwan firms shipped inputs and components from Taiwan to factories in the Mainland. More recently, investment has spread to other manufacturing industries, agriculture and services as well. Taiwan's medical services industry has not been immune from this trend.

#### Major Symptom - Building Hospitals

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¶3. (C) Taiwan investment in PRC hospitals has been widely reported, even though these cases are few in number compared to Taiwan's total investment in the Mainland. Taiwan's Ministry of Economic Affairs (MOEA) has approved more than 35,000 applications for investment in China, but fewer than 10 for hospitals. Victor Chang, President of the Association of Chinese Healthcare Management and President of Landseed International Medical Group, told AIT that Taiwan investors have built or plan to build seven hospitals in the Mainland. He described the following cases:

-- Shanghai Chen Xin Hospital (Landseed) - Opened in 2003, Landseed's hospital is run by about 30 Taiwan managers and doctors with about 100 PRC doctors on staff. It has 100 beds and serves mainly Taiwan investors and their

families living in the Shanghai area.

--Want Want Group - Taiwan processed food manufacturer  
Want Want Group opened a hospital in Changsha, Hunan, in  
12005. It has 300 beds and targets local patients.

--Ford Lio Ho - The Taiwan affiliate of the U.S.  
automaker plans to open a 500-800 bed hospital in Kunshan  
in May 2007.

--Chang Gung Hospital - The medical care subsidiary of  
Formosa Plastics Group is one of Taiwan's largest  
healthcare providers. It plans a hospital with 1,200 to  
3,000 beds to be opened in Xiamen in 2007.

--BenQ Hospital (2 facilities) - The Taiwan electronics  
manufacturer plans to open a 3,000-bed hospital in  
Nanjing in 2007 and a 1,500-bed hospital in Suzhou in  
12008.

--Shanghai Landseed International Hospital - Landseed  
plans a second hospital in the Shanghai area targeting a  
broader clientele, which will include local PRC patients.  
The hospital will have approximately 300 beds.

14. (U) These projects fall into two broad categories.  
Want Want, Ford Lio Ho, and BenQ are manufacturing  
companies that have made large investments in the PRC.  
They chose to build hospitals in part to care for  
employees of their factories and sometimes to reinvest  
funds earned in the Mainland. The others, Landseed and  
Chang Gung, are Taiwan health care providers interested  
in expanding to the Mainland.

#### Facing Obstacles

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15. (C) Chang pointed out that Landseed's first hospital  
was the only Taiwan hospital in China that targeted  
Taiwan investors and their families as patients. The  
others aim more broadly at other foreigners and wealthy  
PRC patients. Chang commented that Landseed's first  
hospital was losing money and targeting Taiwan investors  
was an unsuccessful strategy. He said even though the  
hospital is not profitable, foreign investors are  
interested in acquiring it in order to gain its  
experience in the PRC healthcare market.

16. (C) Chang explained that serving Taiwan investors in  
China was unprofitable because Taiwan patients are  
accustomed to Taiwan's national healthcare system and  
expect to pay very low prices. However, they also want  
to see Taiwan doctors, who demand higher salaries than  
their PRC colleagues. According to Chang, doctors in  
Taiwan are paid ten times the salary of doctors in  
Mainland China. In addition, Taiwan doctors must be paid  
a premium of about 20 percent to get them to relocate to  
the PRC. He also noted that it's difficult to recruit  
Taiwan doctors to work in the Mainland because they lose  
their Taiwan certification when they go there. Chairman  
Huang Min-ho of Show Chwan Memorial Hospital, a Taiwan  
healthcare provider that has established a clinic in the  
PRC, noted another problem in hiring Taiwan doctors to  
work in the Mainland. Huang explained Taiwan doctors  
want to be department chiefs before they will transfer to  
the PRC, further increasing their compensation. They are  
not willing to relocate to be staff physicians, he said.

17. (C) Huang also emphasized the difficulty in obtaining  
approval from PRC authorities as a problem for Taiwan  
healthcare providers. He reported that his firm's clinic  
was visited by more than 20 different Chinese officials  
before it was approved. Chairman Paul Hsu of Phycos  
International, a Taiwan consulting firm for companies

investing in China, commented to AIT that another problem is the regulatory framework of Taiwan's healthcare system. Hsu said because Taiwan hospitals must be non-profit organizations, it's difficult for them to invest directly in the PRC. He noted that they couldn't raise funds on capital markets and were restricted from using their names in overseas investments.

¶8. (C) Another problem, according to Landseed's Chang, is a preference among local patients in the PRC for public hospitals over private ones. Chang said 97 percent of hospitals in Mainland China are government-owned and they are generally respected by the public. He also pointed out that public hospitals don't recognize credentials of private hospitals, making it more difficult to recruit local doctors as well.

#### Other Indications - Clinics and Exchanges

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¶9. (C) Investment in large hospitals is only the most visible sign of cross-Strait activity in the medical services industry. There is also investment in smaller scale medical facilities in the PRC. Huang of Show Chwan Memorial commented that there are about 100 small clinics proposed by Taiwan investors that are awaiting PRC approval. Ministry of Economic Affairs (MOEA) Investment Commission Deputy Executive Secretary Emile Chang said that the Commission had approved approximately 30 applications to invest in medical consulting or medical care facilities. However, he pointed out that small clinics in Taiwan do not need MOEA approval to invest in the Mainland.

¶10. (C) There are also numerous academic and other healthcare exchanges among both doctors and healthcare administrators. Landseed's Chang told us that in the past the PRC's clinical expertise was far behind Taiwan's and medical exchanges mostly helped improve the medical skills of Mainland doctors. Now, he explained, the best doctors in the PRC are as good as Taiwan doctors and there is more two-way exchange of clinical knowledge. Chang claimed that Taiwan's healthcare management is still much more advanced than the PRC's and exchanges in

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this area still consists of Taiwan passing its expertise to the China.

¶11. (C) On October 30, 2006, the PRC hosted a conference on cross-Strait medical cooperation. According to media reports, approximately 700 Taiwan doctors were invited and 400 accepted the invitation. Bureau of National Health Insurance President Liu Chien-hsiang commented to AIT that it was the largest event of its kind. He attributed the high level of interest among Taiwan doctors to the participation of former Department of Health Minister Chang Po-ya.

#### Comment - The Next Wave in Cross-Strait Integration

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¶12. (C) Taiwan investment in PRC healthcare facilities is still very small compared to Taiwan's overall investment in the Mainland, but we expect it will continue to grow. This kind of investment is important because it shows how the process of cross-Strait economic integration continues to march forward. Integration is increasingly occurring in service industries that were previously untouched and will likely spread further. As more Taiwan businesses have a stake in economic relations with the Mainland, we believe support for further cross-Strait economic opening will grow.

WANG